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SUBJECT: SAO DELAYS LOSE SALES AND COST AMERICAN JOBS FOR U.S.
AVIATION COMPANIES

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1. (SBU) SUMMARY. U.S. aviation companies point to current SAO processing times of 16 weeks or longer as an unreasonable threat to U.S. exports, U.S. jobs, and the chances of recovery for their communities in the U.S. The industry has grown remarkably over the past 5 years in China, and has successfully organized to engage local customers, officials and business partners. But it cannot anticipate visa application requests four months in advance, even with its longest sales cycles. SAO delays, caused by insufficient staffing at at least one clearing agency, prevent U.S. firms from reselling cancelled aircraft orders to eager Chinese buyers, and limit their ability to mitigate the impacts of the global economic crisis on their business, and create opportunities for foreign aviation competitors, including especially Airbus. At the current 16 weeks of longer, SAO delays will also hinder cooperation with Chinese suppliers, and could lead to global delays of key aircraft. As SAO delays and the global economic crisis grew in 2008, U.S. aviation exports to China fell by USD 2 billion. The current state of affairs has led this flagship U.S. industry to seriously question the responsiveness of their own government to American business needs. While the business community will welcome the change in SAO Mantis validities for Chinese nationals announced on March 5 (reftel

F), they will continue to face inordinate processing delays until additional personnel are added by at least one clearing agency to resolve the backlog. END SUMMARY.

AVIATION EXPORTS GROW RAPIDLY; U.S. COMPANIES ENGAGED

¶2. (SBU) In 2008, U.S. aviation exports to China totaled USD 5.1 billion, down from their 2007 peak of USD 7.1 billion in 2007, but more than double the value in 2004. (NOTE: Aviation exports defined as U.S. domestic exports of HTS code 88 - aircraft, spacecraft, and parts thereof.) In spite of the decline in 2009, since 2004 aviation exports grew at a compound annual growth rate of 27 percent, exceeding the 20 percent growth rate of overall exports to China. Moreover, the U.S. runs a large trade surplus with China in aviation, reaching USD 4.9 billion in 2008 after peaking at USD 7.0 billion the previous year. While market access issues remain, aviation has clearly been a sector where the Chinese recognize the U.S. comparative and technical advantage and value U.S. products highly.

U.S. AVIATION TRADE WITH CHINA

Units: USD mil.	2004	2005	2006	2007	2008
U.S. EXPORTS	1,948	4,339	6,047	7,160	5,079
U.S. IMPORTS	80	85	134	192	192
U.S. SURPLUS	1,868	4,254	5,913	6,968	4,887

SOURCE: USITC. Domestic exports at FAS value, imports for consumption at customs value. Statistic for harmonized tariff code 88: aircraft, spacecraft and parts thereof.

JOBS IN FIFTY STATES

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¶3. (SBU) U.S. companies in China are well organized through the Aviation Cooperation Program (ACP) of the American Chamber of Commerce (AmCham), which is partially funded by a US Trade Development Agency (USTDA) grant. U.S. companies' activity in China goes far beyond the big names of Boeing, United Technologies, and General Electric. It includes general aviation manufacturers Textron (Cessna and Bell Helicopter), Hawker-Beechcraft, and Cirrus; systems and avionics manufacturers Honeywell, Rockwell Collins, Hamilton Sundstrand, Parker Aerospace and Moog; air traffic control systems vendor Telephonics; and airport design companies Leo A. Daly and HOK; as well as major U.S. airlines. Since 2005, ACP's Executive Management Development Training (EMDT) program has sent nearly 100 trainees from the Civil Aviation Authority of China (CAAC) to the U.S. to learn about the U.S. aviation industry. The result is a very broad-based and close relationship with Chinese regulators, airlines, and local aviation companies, helping to keep the door to China's burgeoning aviation market open. But SAO delays of 16 weeks or more have begun to undermine the good work the industry has done in cultivating relationships in China. It is not exaggeration to say jobs are created or lost in all fifty states depending on the health of this important industry. The following examples illustrate firsthand the problems SAO delay pose for their business.

BIG BURDEN ON BOEING'S BUSINESS

¶4. (SBU) Boeing Commercial Airplanes Group was recently forced to delay a 777 freighter delivery to China due to an SAO delay, resulting in delayed revenue in the range of USD 250 million (list price). The 777 was to be delivered in mid-February 2009, but required an inspection by CAAC Airworthiness Division. The CAAC airworthiness inspection team leader applied for his U.S. visa on Oct. 20, 2008. His application was tagged for SAO concerns and he was requested to provide additional information, which he did on Oct. 27. Boeing checked on the status six weeks later on Jan. 9, 2009, but was told that SAO administrative processing was taking eight to ten weeks. With only a few weeks till inspection, and unable to clarify when the inspector's visa would be approved,

Boeing was forced to postpone inspection and delivery, which will likely push revenue into the following quarter. Even America's largest aircraft manufacturer had not anticipated the selection of a CAAC airworthiness inspector for SAO concerns, nor such a long delay.

15. (SBU) Boeing has a National Development and Reform Commission (NDRC) delegation slated for travel in April 2009, which will work on implementation of an MOU with Boeing on aviation safety and efficiency. The Embassy will need to request expedited SAO processing since key members of the mission from NDRC and CAAC are those who actually approve vendor selection by Chinese airlines and will help determine the sale of up to 150 aircraft valued at USD 10 billion. Given the group's composition, with leading officials from a wide range of agencies, it is not practically possible to arrange their travel 16 weeks or more in advance. To do so would have required they begin the application process nearly one-half year ago. Chinese government officials have their own procedures for official travel. One aviation contact asks, "How easy would it be for a U.S. Government official to gain approval and process their travel more than four months in advance?"

THE LIMITS OF TOLERANCE

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16. (SBU) According to Kenneth Yata of Boeing China, "A four month lead time is simply unacceptable for our customers and suppliers. At some point, they will simply say 'enough is enough, we can do business with the Europeans, Canadians, Israelis and Russians.' In the early 1990s, Boeing had a 90 percent market share in China, versus 5 percent for Airbus. Today, Airbus is up to 30 percent, Boeing down to 50 percent, and other vendors such as Bombardier have entered. We want to partner with Chinese companies, but SAO processing times are making the return disproportionate to their efforts to work with us." Yata is appreciative of the Embassy's efforts to expedite SAO processing, but fears the lengthening approval process has jeopardized so much travel that neither Boeing nor the Embassy can reliably expedite so many travelers.

UNITED TECHNOLOGIES FIGHTS AN UPHILL BATTLE

17. (SBU) United Technologies Corporation (UTC) is a large American aviation conglomerate, which includes Sikorsky (helicopters) Schweizer (small aircraft), Pratt and Whitney (engines) and Hamilton Sundstrand (aerospace systems). UTC sales in China and Hong Kong were USD 2.7 billion in 2008, while exports from the U.S. to China were USD 223 million. The company has been frustrated by SAO delays, and has done its best to learn how to work within the process. But Jim Gradoville, President of UTC's China Division, observes that lengthening of SAO processing times over the past year to more than 16 weeks is making it harder and harder to do business.

18. (SBU) In 2008, the Deputy General Manager of a UTC Sikorsky helicopter joint-venture applied for a visa one month before a critical supplier conference. His application was tagged for SAO processing, and he did not get the visa until six weeks later and was unable to attend the event. UTC training for CAAC staff at Sikorsky and Schweizer was also cancelled in 2008 due to the group's inability to receive their SAO clearance on time. The schedule had not been easy to coordinate with the Sikorsky facility and FAA. Sikorsky was forced to postpone dates for its suppliers' conference four times in 2008 while it waited for Changhe Aircraft employees SAOs to be approved. Ordinarily, the company would have moved ahead as scheduled, but Changhe has become too important a supplier and Sikorsky feared excluding them would harm their business relationship.

19. (SBU) Sikorsky's first Chinese customer for a S-76 VVIP helicopter applied in advance to take delivery of the aircraft in November 2008. UTC had applied in advance, taking possible SAO processing of three weeks into account, and the buyer's wife and his company's aviation manager were indeed identified for SAO

processing. Unfortunately, processing time had grown to 6 weeks, which made it impossible to travel according to schedule, which delayed delivery. A French competitor has told this customer that the Americans are just too difficult to deal with. Sikorsky knows the customer wants to buy a second helicopter of this class, but fears the SAO processing issue could tip the purchase to their European competitor.

GIVING UP ON SALES TO CHINA?

¶10. (SBU) As-with many U.S. aviation companies, UTC has a broad range of relationships with Aviation Industry Corporation of China (AVIC). Since UTC knows that AVIC employees are likely SAO targets, they generally no longer include them in any activities with less than a three month lead time. This affects the company's planning which would benefit from AVIC's participation, and hurts the

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company's relationships and competitiveness against European and Russian vendors. Customers are well aware of the SAO hurdle, and even if they are sold on a particular aircraft, many fear their employees will not be able to attend essential training if they buy a U.S. manufactured product.

SAOS THREATEN HOPES FOR SMALL AIRCRAFT VENDORS

¶11. (SBU) While China's commercial aviation market has been growing rapidly, air space control and regulation have hampered the growth of the general aviation (private airplane) sector. With the Wenchuan Earthquake in May 2007, China's leadership and aviation regulators became acutely aware of the deficiency in China's small aircraft fleet. China had virtually no heavy-load helicopters to assist relief efforts in remote communities in Sichuan Province. Since that time, China has begun to consider accelerated purchases of helicopters. Moreover, it is also considering opening airspace control and regulation to allow development of a general aviation sector which could assist with disaster relief in a national emergency. This potential regulatory change is expected to create a wave of new business opportunities for U.S. small airplane and helicopter companies, from Wichita to Wisconsin.

¶12. (SBU) U.S. company Hawker-Beechcraft is a case in point. The company recently opened a Beijing sales office to support its growing China business. With over ten different small airplane models, the company has been introducing its range of aircraft to China through small sales, often for flight training applications. They are averaging eight to ten sales per year, valued at roughly USD 10 million per deal. Currently the number of airplanes is small, but Regional Sales Director Matthew Liu says the potential market for private aircraft is huge, and the Chinese have the money to buy. While corporate jet business is facing cancellations in the U.S., the China market continues to grow. Hawker-Beechcraft even sees the opportunity to recover cancelled orders in the U.S., by selling these aircraft in China.

¶13. (SBU) However, as Hawker-Beechcraft builds its business, each new aircraft type requires certification by the Civil Aviation Authority of China (CAAC). Hawker's sales cycle is typically six months from order to delivery, but it has the chance to sell some of its cancelled orders on an even tighter schedule of three to four months. Unfortunately, such sales cycles do not offer much opportunity to factor in a 12 to 16 week possible SAO processing time, and SAOs could likely scuttle many of these deals. Hawker is waiting for the visa application results for a CAAC team seeking to inspect a new aircraft delivery to Shenzhen Airlines. If, as in other cases, the inspector's application is submitted for an SAO, a 16 week delay for will dramatically postpone any delivery.

LONG WAIT TRANSLATES TO ANTI-AMERICAN SENTIMENT

¶14. (SBU) According to AmCham ACP Executive Director Joseph Tymczyszyn, even when an SAO is finally cleared, the delays caused by the processing can contribute to anti-American sentiment among

key Chinese officials. In 2002-03, a CAAC Air Traffic Management Bureau (ATMB) official was delayed due to SAO. The busy official made several attempts to reschedule, but after more than 6 months, the process was never concluded. The official withdrew the application in disgust, and stated she would rather work with the Europeans and Japanese. The official did eventually reapply in 2004-05, when the application was delayed for an SAO but ultimately approved in time for her trip. Unfortunately, other members of her delegation were not cleared in time, and the trip had to be

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postponed.

115. (SBU) Since those experiences, the official has been promoted within ATMB, where she is a Deputy Director General (DDG) in charge of new technology and purchasing air traffic control (ATC) equipment for all of China. Her office also determines ATC standards. U.S. ATC vendor Telephonics initially had a good position with airports in southern and central China. But acquisitions in the past several years, including upgrades at China's three largest commercial airports, have been given to a French vendor. ATMB also approves landing slots for U.S. airlines at China's airports, and timing of arrivals and departures can greatly impact an airlines success. It doesn't help to have key officials predisposed to dislike the U.S.

HUNDREDS OF TRAVELERS MUST ABANDON TRAVEL

116. (SBU) Beijing Consular Section estimates SAO processing currently takes 16 weeks or longer. Since October 1, 2008, Beijing has turned away more than 615 business travelers with inflexible dates of travel at the time of their interview due to SAO delay, including nearly 200 in the past 30 days. During the month of February 2009, the NIV section turned away 25 percent of all B1/B2 business travelers with a technology background and SAO requests were never sent. (NOTE: Additional reporting on SAO processing statistics and its impact on travel to the U.S. will follow in septel.)

AVIATION COMPANIES WANT TO BE GOOD CORPORATE CITIZENS

117. (SBU) U.S. aviation companies have been cooperative with the Embassy and work hard to cooperate with visa and SAO requirements. Many are active in the American Chamber of Commerce referral program, and do their best to stay up to date on changes in procedures and processing times. But even in the best of circumstances the nature of their business does not allow them to have customers, government officials and business partners begin preparations for travel to the U.S. five or more months in advance to overcome a four month SAO process. Worse yet, in turbulent economic times growth in China offers them a chance to mitigate the downturn in other markets, helping them to the maintain production and jobs in the U.S. Inordinately long SAO delays hinder their flexibility to make such deals. The current state of affairs makes them question the responsiveness of their own government to American business needs.

AVIATION INDUSTRY SUGGESTS IMPROVEMENTS

118. (SBU) U.S. aviation companies deeply understand USG concerns about technology transfer. The competitive nature of their industry and China's own efforts to build commercial aircraft means they deal with it every day. But they have two practical suggestions for the SAO process which they believe would allow them to continue their cooperation, while still building a healthy business.

(1) Create a special program for key Chinese government and aviation industry officials, executives, procurement or technical representatives who could be pre-approved for travel in advance. The Aviation Cooperation Program from AmCham could help prepare a list of 200-300 key officials, and subject it to annual review.

(2) When the SAO backlog is current, work with U.S. aviation companies and AmCham to get the message out to their customers, government contacts and business partners in order to counter the angst which has accumulated.

¶19. COMMENT. Embassy Beijing welcomes the change in SAO Mantis validities for Chinese nationals announced by the Department on March 5 (reftel F). This new policy will allow visas to be issued for a full year with multiple entry. Our Consular Section has already begun to inform key U.S. business contacts of the change. While we anticipate aviation vendors will also welcome the announcement, these companies still face a four month processing time for pending visas until clearing agencies devote sufficient resources to eliminate the current backlog and stay current going forward. END COMMENT.

PICCUTA